

Generating Revenue Through the Sale of City-Owned Land

Ekaterinburg, Russia

Background

Recognizing the rapid decline in public funding for new housing construction, the City of Ekaterinburg (population 1.6 million) sought to stimulate private housing development. The city identified poor access to land as the most significant obstacle to growth of the construction industry and the emergence of private land and housing markets. Land values in Ekaterinburg did respond to market forces, but there was no effective land market because all land was publicly owned. Furthermore, the existing system of allocating development and use rights favored large, public-sector *kombinats* rather than the emerging small, private builders and developers. The city concluded that sale of vacant city-owned land for development would both stimulate the private construction sector and generate local revenue. Procedures, legislation, and documentation for market-based land disposal strategies were refined, and the city adopted a well-defined procedure for competitive bidding as a means to give equal access to developers and create a realistic market price for land.

Innovation

In 1993 Ekaterinburg initiated the first land tendering effort in the Russian Federation by issuing a mayoral resolution authorizing the sale of development rights. The necessary approvals were obtained and offered with the development rights to speed development and remove uncertainties for the developer, increasing the value of the land parcels. The sale of development rights was advertised and tender documents distributed to interested parties. Private developers were then given training in preparing bids and in calculating realistic bid prices for the sites. The city evaluated bids and negotiated with the top bidders, resulting in the sale of the development rights to a private developer. The city agreed to convert the development rights to ownership rights for the developer once federal legislation permits. As sale of land to developers was not legal at that time, cities normally gave away free perpetual use rights in exchange for a percentage of housing units being constructed, to be converted to private ownership for the ultimate purchasers of housing units. The land tendering effort focused on in-fill sites that were already serviced with major infrastructure to reduce time for construction and approvals and to capture the full price of serviced parcels from the buyer. The only costs to implement this innovation involved the time of tender staff.

The city offered two sites totaling 1.1 hectares for sale of development rights to construct low-rise townhouses and apartments. More than 20 prospective bidders requested tender documents, and over 30 local builders and developers attended a five-day training seminar. Five bids were received (all for both sites); the development rights were sold to the private firm UralMonolith in 1994. The sale price for the site was roughly five times the reserve price set by legislation, resulting in increased revenues for the city. UralMonolith is building 60 townhouses on the two sites; the first phase of construction is in progress, with the first units scheduled for completion in late 1996.

Results

The demonstration achieved its objectives. This was the first land sale in Ekaterinburg in which the city and developer contracted for the sale of development rights convertible to ownership rights. The sale allowed the city to adopt an active approach to disposal of municipally-owned land, facilitate private development, and generate local revenue. Many of the procedures refined in the Ekaterinburg innovation were modified and replicated in six cities that conducted land auctions.

Summary

To stimulate private housing development through easier access to land, the City of Ekaterinburg used a competitive bidding process to grant development rights for two sites. The development rights will be converted to ownership rights for the developer when legislation allows. The sale allowed the city to adopt an active approach to disposal of municipally-owned land, facilitate private development, and generate local revenue.

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